



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

December 15, 2003

MEMORANDUM **F O R** DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

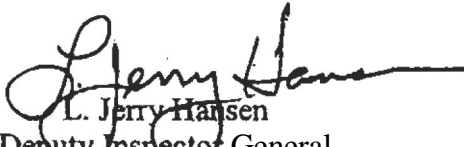
SUBJECT: Quality Control Review of Defense Contract Audit Agency Audit Operations  
(Report No. **D-2004-6-003**)

We have reviewed the Defense Contract Audit Agency (**DCAA**) audit operation's system of quality control for the 3-year period ended September 30, 2002. The Government Auditing Standards require that **an** audit organization performing **Government** audits have an appropriate internal quality control system and undergo an external quality control review. Sections **8(c)(3)** and **8(c)(6)**, the **Inspector** General Act of 1978, as amended, gave the **DoD** Inspector General **the responsibility** for providing policy direction and evaluating **DoD** auditors. As part of that **responsibility**, the Assistant Inspector General for Audit Policy and Oversight, Office of **the Deputy Inspector** General for Inspections and **Policy** performed the external quality control **review** of the DCAA.

An audit organization's quality control policies and **procedures** should be appropriately comprehensive and suitably **designed** to **provide** reasonable assurance that the objectives of quality control will be met. We tested **compliance** with the DCAA system of quality control to the extent we considered appropriate.

The DCAA system of quality control in effect for the 3-year **period ended** September 30, 2002, has **been** designed in **accordance** with quality **standards and** was being complied with to provide reasonable assurance of material compliance with professional auditing standards in **conducting** audits. We are, therefore, issuing an unqualified opinion on your audit quality control system. The **scope** and **methodology** of our review is attached to this memorandum. A separate Memorandum of Comments and Observations contains issues not previously included in the reports listed on the attachment. These observations and the reports listed **on the** attachment were considered in **arriving** at our overall opinion and should be read in conjunction with this report.

Please call me or Ms. Patricia A. **Brannin**, Assistant **Inspector** General for Audit Policy and Oversight at (703) **604-8802** if you have any questions.

  
L. Jerry Hansen  
Deputy Inspector General  
Inspections and Policy

Attachment

## **Scope and Methodology**

As of September 30, 2002, the Defense Contract Audit Agency (DCAA) had a total of **3,528** auditors located **throughout** headquarters, 5 regional offices, Field **Detachment** (classified audits) and **79** field audit offices (contractor and branch office locations). During that year, DCAA completed 40,045 assignments, valued at \$250.6 billion, with net savings of \$2.5 billion. DCAA implemented a new quality assurance program beginning in FY 1999 and established a 3-year cycle for conducting quality assurance reviews. DCAA categorized its workload into four major categories: forward pricing assignments; internal control reviews; incurred cost audits; and all other (miscellaneous grouping of all other type audits). DCAA also performed a separate review covering some aspects of the General Standards.

Because the quality assurance system was new, we reviewed the DCAA quality assurance reviews as they were completed throughout the 3-year cycle, instead of waiting until FY 2002. Completing the reviews throughout the cycle allowed DCAA quality assurance staff and us to work proactively to revise processes, as needed, as they performed the quality assurance reviews. This approach helped to improve the DCAA quality assurance program as it was developed. In performing the quality control review of such a large organization, numerous meetings were held including joint planning meetings before each DCAA audit area was reviewed. We also re-tested assignments and reviewed assignments that DCAA quality assurance did not review.

We based our review of the DCAA quality assurance program on the Government Auditing Standards relating to quality controls; General Accounting Office **GAO/OP-4.1.6**, "An Audit **Quality** Control Systems: Essential Elements," **August** 1993; President's **Council on Integrity and Efficiency (PCIE)** "Guide for **Conducting External Quality** Control Reviews of the Audit **Operations** of Offices of **Inspector General**," **January** 2002; DCAA strategic goals and objectives; and DCAA **policies** and **procedures** in force from June 1992 through July 2003.

We also included DCAA audits, **performed** as **part** of a **single** audit under the requirements of Office of **Management and Budget Circular** No. **A-133**, in assessing whether the quality control **system** was effectively **implemented**. DCAA excluded these audits **from** their **quality assurance** reviews because we performed quality control reviews as part of our cognizant agency responsibility.

Our overall unqualified opinion is based on the following reviews of the DCAA and the Memorandum of Comments and Observations.

- IG **DoD** Report No. D-2004-6-001, "Defense Contract Audit Agency Quality Assurance Review of All Other Audits," October 21, 2003

- **IG DoD** Report No. D-2003-6-003, "Defense Contract Audit Agency Quality Assurance Review of Incurred Costs," December 20, 2002
- IG DoD** Report No. D-2003-6-002, "Summary of Quality Control Review of Office of Management and Budget Circular A-133 Audits," November 8, 2002
- IG DoD Report No. D-2002-6-007**, "Defense Contract Audit Agency Quality Assurance Review of Internal Control System Audits," August 6, 2002
- IG DoD** Report No. D-2002-6-005, "Defense Contract Audit Agency Regional Quality Assurance Review of Incurred Cost Sampling Initiative," April 16, 2002
- **IG DoD** Report No. **D-2002-6-004**, "Report on Quality Control Review of **KPMG**, LLP, and DCAA Office of Management and Budget Circular A-133 Audit Report of Illinois Institute of Technology Research Institute, FY Ended June 30, 1997," March 28, 2002
- **IG DoD** Report No. D-2002-6-003, "Report on Quality Control Review of DCAA and KPMG, LLP Office of Management and Budget Circular A-133 Audit Report of SRI International, FY Ended December 25, 1999," January 14, 2002
- **IG DoD** Report No. **D-2002-6-001**, "Defense Contract Audit Agency Quality Assurance Program," December 6, 2001
- IG DoD** Report No. D-2001-6-005, "Report on Quality Control Review of Deloitte and Touche, LLP and DCAA for **Office** of Management and Budget Circular A-133 Audit Report of Pennsylvania State University, FY Ended June 30, 1999," May 1, 2001
- IG DoD** Report No. D-2001-6-004, "Report on Quality Control Review of **PricewaterhouseCoopers**, LLP, and DCAA for **Office** of Management and Budget Circular A-133 Audit Report of Massachusetts Institute of Technology, FY Ended June 30, 1999," March 22, 2001

**IG DoD** reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.